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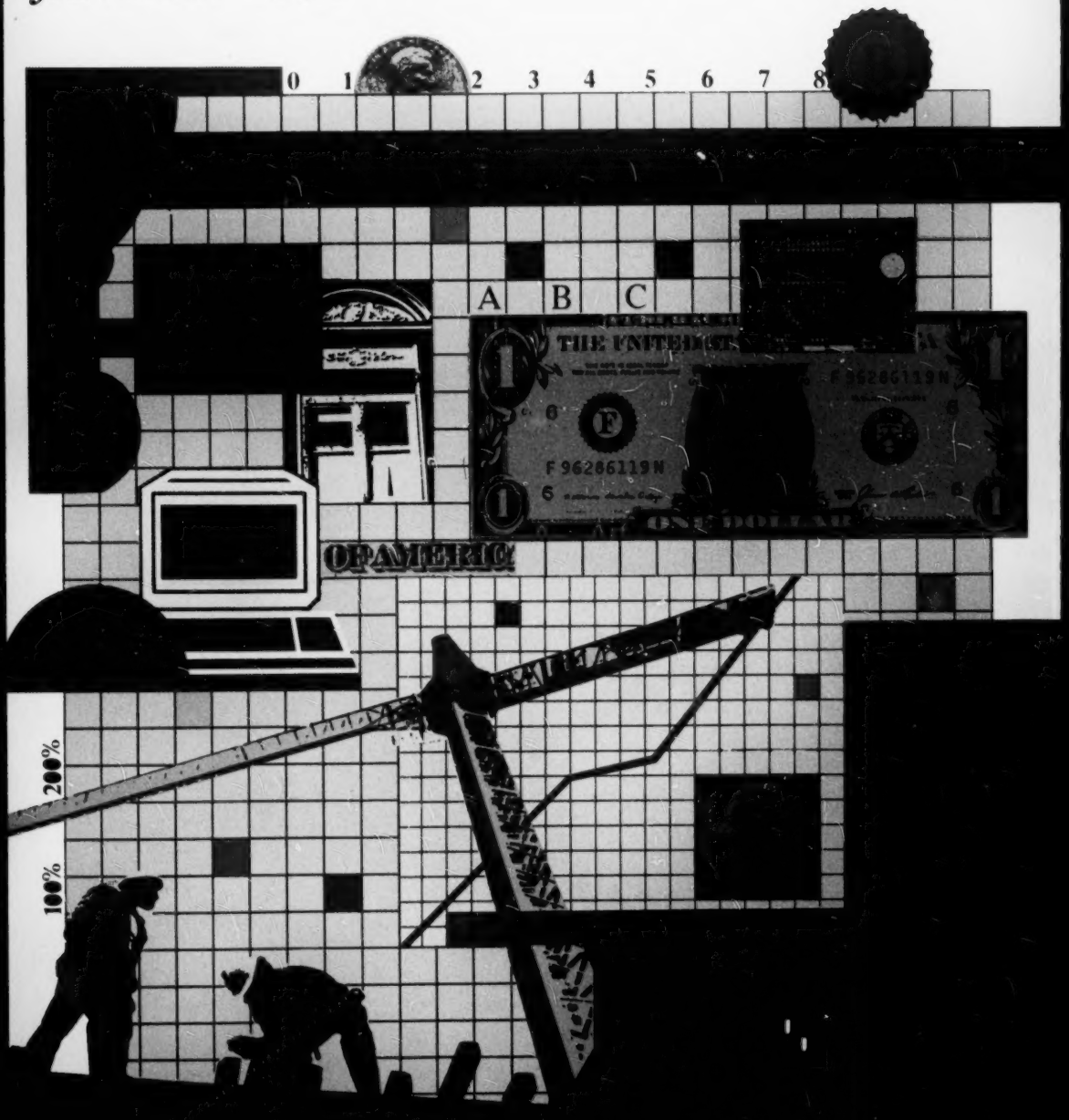
The NFIB Foundation

QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

JANUARY 1990



Quarterly Economic Report for Small Business

January 1990

Prepared by
The NFIB Foundation

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NFIB.

NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 66)

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SUMMARY OF RESULTS

by

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"Stagflation" characterized small business owners' January assessment of current economic conditions and their plans for the coming three months. Small business selling prices resumed their troubling movement upward. But, economic activity again ebbed with no indication that a firm direction would soon be established. Only two indicators of small business activity contained a clear direction. One was up and the other was down. Plans to make capital expenditures, already high historically, grew even stronger in January. The frequency of net earnings increases fell sharply. And, overhanging the slow pace of activity were price conditions reminiscent of the most recent inflation racked year - 1981.

Rising prices were the focus of January report. With a single exception, the frequency of reported price increases in the fourth quarter was the highest since 1981. The rise in the frequency of increases from October was three percentage points, but the disturbing element was that January hastened the relentless upward movement of price increases. Aside from prices, the fourth quarter proved uneventful. Most indicators of economic activity were flat or marginally changed. Credit conditions were typical. They remained unchanged including the 12.2 percent average rate paid on short-term loans. Reported capital expenditures maintained their expansion high levels. Current job openings rose one percentage point seasonally adjusted, though net labor force additions were considerably lower than in the previous quarter. Average employee compensation increases were virtually the same as October's once seasonal factors were eliminated. The net number reducing inventories rose though satisfaction with current inventories fell. The Index of Small Business Sales moved higher while the Index of Small Business Earnings dropped sharply.

Small business owner plans for the next three months indicated that the patterns present in the last months of 1989 will carry into the new decade. The continuity implies more frequent prices increases and ebbing economic activity. In fact, plans to raise prices were the most frequent since 1981 and the Index of Small Business Optimism declined marginally. Small business owners expected no major to occur in the near future. The outlook declined modestly and sales expectations were unchanged, seasonally adjusted. No change in credit conditions was anticipated either. Inventory plans rose and hiring plans fell slightly. However, capital expenditure plans moved up and again approached a survey record high. One other indicator moved sharply higher - plans to raise average employee compensation - a not so gentle reminder that small business price increases were the critical element in January's data.

Outlook

The small business outlook ebbed on a seasonally adjusted basis. But, the decline from October was modest. Both the relative and absolute outlook measures fell. The relative measure was two percentage points lower than it was one year ago as was the absolute figure. Neither was part of a trend, however, as January's figures were at least as favorable as those reported in two of the last three quarters. In fact, the relative outlook was near its 1986 - 1989 average; the absolute outlook was about two percentage points lower than its average for the same period.

Forty-three (43) percent expected general business conditions to improve over the next three to six months and 24 percent expected them to worsen (Table 1). The proportion anticipating better conditions as well as the proportion anticipating worse conditions have remained virtually constant over the last four January's. Thus, not only has the net percentage been stable, but so has its two components, i.e., better, worse. The stability in both components emphasizes how little small business owner views on the economy's direction have changed during the period.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Much Better	2	2	2	1	1	1	2
Better	24	22	20	17	14	19	22
Same	56	54	58	54	58	60	57
Worse	10	16	11	19	19	12	13
Much Worse	2	1	2	2	2	1	1
Don't Know	5	5	7	7	6	6	5
No Answer	1	1	*	*	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Just 15 percent believed that the current climate was good for small business expansion; 54 percent disagreed and believed the climate was not good for small business expansion and 34 percent were undecided (Table 2). Chart 1 presents the reasons given for each owner's views. The distribution of reasons cited in January changed very little from October. The only notable change was a near doubling in the percentage citing "Financing" among those who felt it a good time to to expand. The change suggests that they believed interest rate relief was in sight, but as shown later (see,

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Yes	18	13	17	16	17	15	15
No	49	52	44	48	45	46	50
Uncertain	32	35	38	35	37	38	34
No Answer	1	*	1	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Credit Conditions) rates have been steady and few expect any change in them. A second point deserves mention. The lack of change from October - really a modest reduction - in the proportion citing expansion costs as their reason for an uncertain or negative view of the expansion climate does not reflect price conditions as reported elsewhere (see, Prices and Earnings). While price pressures appear to be intensifying, they are not yet evident in climate assessments or capital outlay plans (Capital Expenditures).

Credit Conditions

Interest rates paid by small business owners on short-term loans did not change between the third and fourth quarters (Table 3). Rates averaged 12.2 percent in the last three months of the year with as many reporting rates higher compared to the third quarter as reporting them lower (Table 4). A greater proportion indicated that loans were "Harder" to obtain in the fourth quarter than the proportion who indicated they were "Easier" to obtain. However, the net percentage was unchanged from October (Table 5). Further, the series consistently finds more small business owners reporting it "Harder" than "Easier." The result is that owners encountered little change in credit conditions over the latter part of 1989.

The number of "regular borrowers" remained low. Just 36 percent reported themselves regular borrowers, one percentage point higher than in October, but among the lowest in the survey's history. Since the decline in inflation rates, the frequency of borrowing has fallen and recent price pressures (see, Prices) has not yet forced them back to the bank.

The net percent expecting credit conditions to ease in the first quarter compared to the fourth was unchanged from October's credit conditions forecast. Two percent believed credit conditions would loosen compared to eight percent who believed they would tighten (Table 6). The net -6 percentage points is the historic norm, indicating that no change is expected.

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION

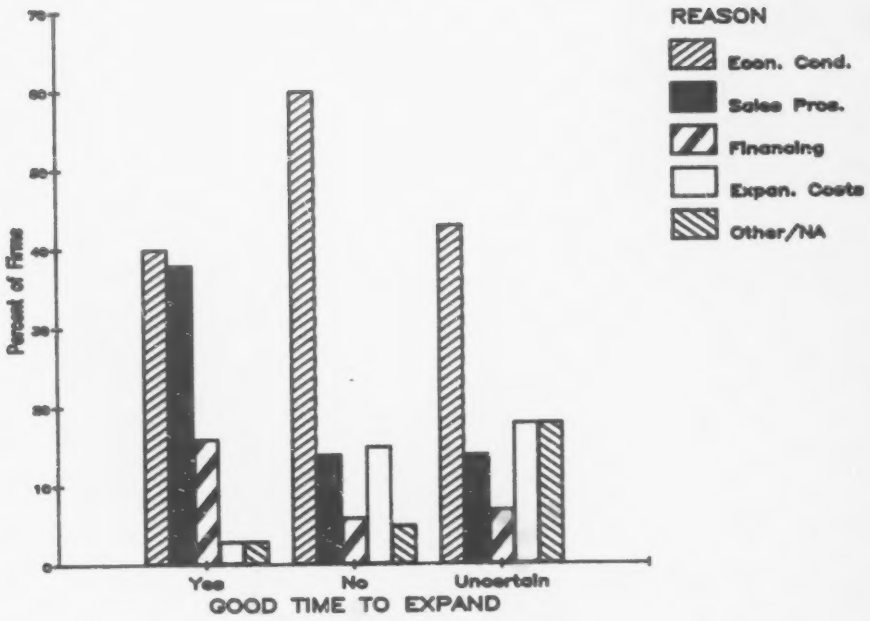


Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Under 10%	10	5	2	4	1	1	1
10%-12%	32	36	36	29	24	31	32
13%-15%	2	5	10	13	17	12	14
16% or More	5	4	3	3	2	5	3
Prime +1	25	28	28	25	29	31	29
Prime +2	17	17	18	21	23	18	17
Prime +3 or More	4	5	3	5	4	2	4
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.7%	11.1%	12.0%	11.6%	12.0%	12.6%	12.2%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO
INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Much Higher	1	*	2	7	1	1	*
Higher	2	12	25	29	14	9	7
Same	18	21	9	4	12	18	21
Lower	15	4	1	*	7	7	7
Much Lower	*	*	*	*	*	*	*
Don't Know	1	1	1	1	1	1	1
Inapplicable (borrow infre-frequently;no answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Table 5

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Easier	3	1	1	1	1	1	1
Same	24	29	27	27	25	26	25
Harder	7	7	8	11	8	7	7
Don't Know	3	2	2	2	1	2	3
Inapplicable (Don't Borrow; No Answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners have made capital expenditures frequently during the current expansion, particularly over the last year or two (see, Capital Expenditures). They have made them in the face of steep interest rates. Chart 2 presents the average interest rate charged small business owners on short-term loans over the expansion. While capital outlays are normally not financed with short-term money, the chart reflects the cost of longer term financing for small business owners. Matching capital expenditures to interest rates and the change in interest rates suggests that debt financing costs have had virtually no impact on either capital expenditure plans or the frequency of expenditures themselves. Other factors have contributed to the capital expenditure boom, the most important of which is earnings (see, Earnings).

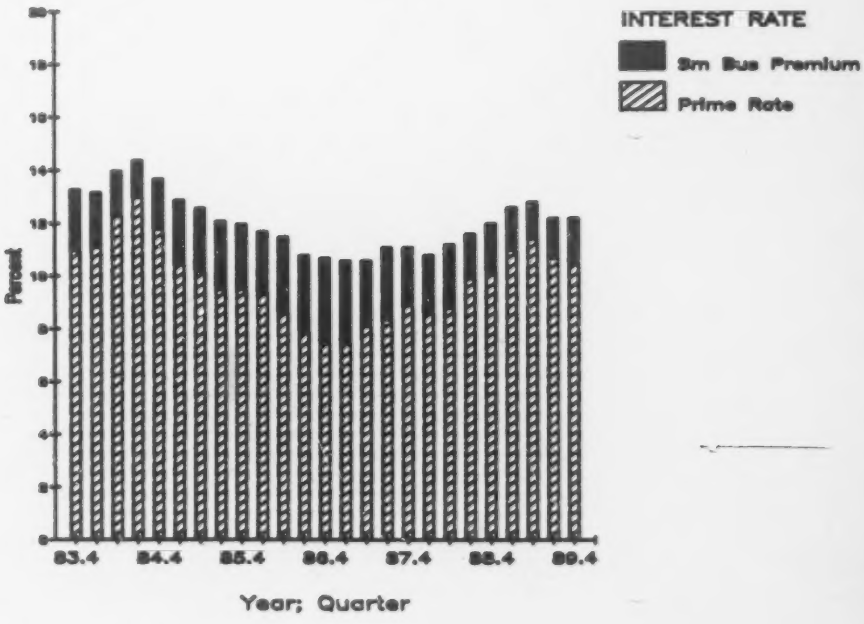
Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1987 JAN	1989 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Easier	3	2	1	1	1	1	2
Same	23	26	24	23	23	24	22
Harder	8	9	9	13	8	7	8
Don't Know	3	2	4	4	3	4	4
Inapplicable (Don't Borrow; No Answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Chart 2

AVERAGE INTEREST RATES PAID BY SMALL
BUSINESS OWNERS ON SHORT-TERM LOANS



Prices

Prices took a serious turn for the worse in January creating fears of a renewed bout with inflation. Both the frequency of actual price increases made in the fourth quarter and plans to raise selling prices in the first more closely resembled the early 1980's than the mid or late years of the decade. With a single exception the number of firms reporting higher prices in the fourth quarter than in the third were the most frequent since 1981 as were plans to raise prices in the first quarter. The rise in 1981's Consumer Price Index was 8.6 percent.

Thirty-one (31) percent reported raising average prices in the fourth quarter (Table 7). The number was 5 percentage points lower than last January's expansion high. January's figure was also lower than the levels reported in each of the four months between November, 1988, and February, 1989. The concern, however, is the frequency of price increases declined progressively between January and November (excepting an October uptick) reaching a low of 22 percent. Since November two consecutive monthly increases have pushed the number up nine percentage points and January's plans indicated the frequency would grow.

Nine percent reported lower prices in the fourth quarter than in the third, the same number as in each of the last three quarters.

In January, thirty-two (32) percent planned to raise selling prices in the next three months (Table 8). The survey has not

Table 7

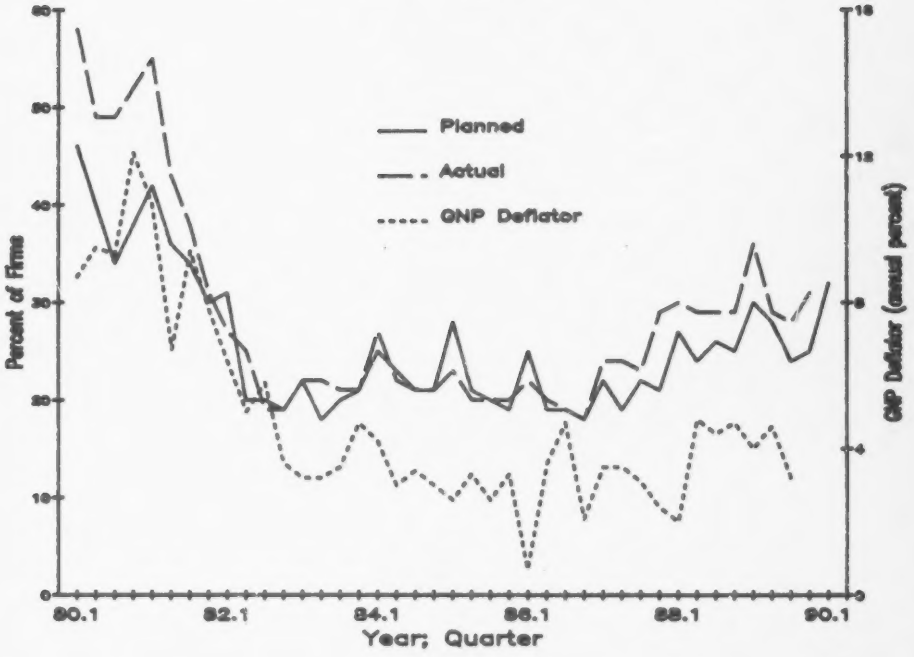
CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	1989 OCT	1990 JAN
Lower Now	12	12	8	9	9	9	9
No Difference	65	57	58	52	59	61	59
Higher Now	18	29	29	36	29	28	31
Less than 1%	1	1	1	*	1	1	*
1.0-1.9%	3	2	4	4	3	4	4
2.0-2.9%	3	4	5	5	5	5	5
3.0-3.9%	2	3	4	5	4	3	4
4.0-4.9%	2	3	4	5	4	4	5
5.0-7.9%	3	6	6	9	6	6	6
8.0-9.9%	1	2	1	2	1	1	2
10% or More	2	8	3	4	4	3	4
No Answer	1	*	1	2	1	1	1
No Answer	5	2	5	3	3	2	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Chart 3

THE FREQUENCY OF PLANNED AND ACTUAL
PRICE INCREASES



to the rise in the frequency of price increase. Twenty-four (24) percent reported higher average compensation in the fourth quarter than in the third, down two percentage points from each of the last three quarterly benchmarks (Table 9). Two caveats to the decline are necessary. Both are evident on Chart 4. The first caveat is that the data exhibits seasonality. A decline always appears in the fourth quarter. While the series is yet too young to seasonally adjust, seasonal adjustment would probably eliminate the decline altogether. The second caveat is that employee compensation increases have become more frequent during the expansion. The series high - 26 percent - has been reached in four of the last six quarters. These increases may not affect selling prices immediately, but they must at some point and January could be the point.

Plans to increase average compensation moved sharply higher in January. Twenty-six (26) percent planned to raise average compensation in the next three months, up six percentage points from October and two percentage points from January, 1989 (Table 10). The sharp upward move was in part attributable to seasonal factors. However, January, 1990, plans were still above those reported in any

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1987 JAN	1988 JAN	1990 JAN		1989 APR	JUL	OCT	1990 JAN
Lower	3	5	2		3	3	3	3
No Change	55	55	49		51	59	56	50
Increase	22	27	30		28	24	25	32
Less than 1%	*	*	*		*	*	1	1
1.0-1.9%	2	3	3		3	3	2	4
2.0-2.9%	4	3	4		5	4	4	5
3.0-3.9%	3	4	4		4	3	3	4
4.0-4.9%	3	5	4		4	3	4	5
5.0-7.9%	6	7	9		7	6	6	7
8.0-9.9%	1	1	1		1	1	1	1
10% or More	2	3	3		3	3	3	3
Don't Know	1	1	3		1	1	1	2
Don't Know	14	12	13		14	12	14	13
No Answer	6	1	6		4	2	2	2
Total	100%	100%	100%		100%	100%	100%	100%

*Less than 0.5%

recorded such frequency of planned price increases since July, 1981, when 34 percent planned them. The plans were spread across all industries. Their breadth suggested the problem is not just a temporary one caused by weather or some similar factor. Planned increases were most frequent in wholesale (44 percent), construction (37 percent), services (35 percent), agriculture (34 percent) and retail (33 percent). Only the financial services which are particularly susceptible to interest rate movements seemed immune (15 percent).

Actual price increases historically track planned price increases. The parallel movement indicates that the frequency of small business price increases will rise in the next three months (Chart 3). However, the increases will probably be even more frequent than planned. Once the Consumer Price Index rises above 4 percent, eventual price increases outpace planned increases. The higher the CPI, the greater the discrepancy between plans and actual increases. Thus, April's report will likely show that about 35 percent raised prices in the first quarter.

Reasons for the frequency of price increases are not clear. However, it would appear that a gradual rise in the number increasing employee compensation has begun to have some effect.

Compensation

Changes in the frequency of compensation increases fell in the fourth quarter suggesting that employee compensation is not related

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Increased	19	23	24	26	26	26	24
1-2%	3	3	3	3	4	4	3
3-4%	6	7	7	7	6	8	6
5-6%	6	6	7	7	7	9	7
7-8%	1	2	3	3	3	3	3
9-10%	1	1	2	3	3	2	3
Over 10%	1	3	5	2	1	2	2
No Answer	1	1	*	1	*	*	1
Same	71	70	69	68	67	68	70
Decreased	2	1	1	1	1	*	1
No Answer	8	6	6	5	6	6	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.4%	6.0%	5.9%	5.9%	6.0%	5.7%	5.8%
All Firms	1.1%	1.4%	1.4%	1.5%	1.5%	1.5%	1.4%

* Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Increase	20	24	24	22	18	20	26
1-2%	2	2	2	2	2	2	2
3-4%	6	7	7	6	6	5	9
5-6%	7	10	9	7	6	7	9
7-8%	2	2	2	2	2	2	2
9-10%	1	2	2	2	1	2	2
Over 10%	*	1	1	1	*	1	1
Don't Know	1	*	1	1	*	1	1
No Answer	1	*	*	1	1	*	*
Same	65	63	63	66	69	65	61
Decrease	2	2	1	*	1	1	1
Don't Know	9	8	9	10	9	11	10
No Answer	4	3	3	2	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%

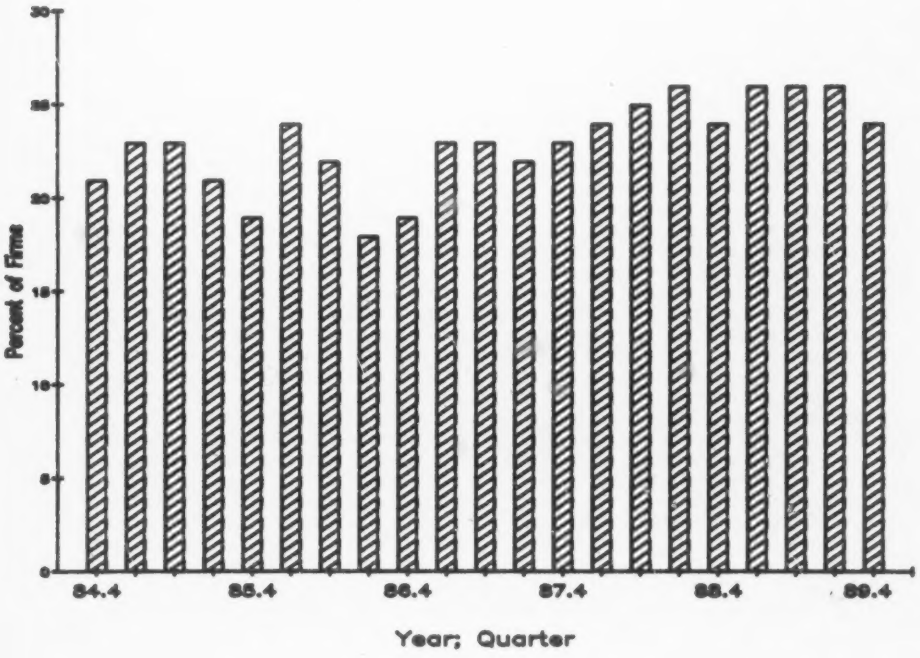
TABLE 10
(continued)

AVERAGE INCREASE	1987 JAN	1988 JAN	1980 JAN		1989 APR	1989 JUL	1989 OCT	1990 JAN
Firms Increasing	5.4%	5.5%	5.9%		5.8%	5.6%	5.6%	5.5%
All Firms	1.0%	1.3%	1.4%		1.3%	1.0%	1.1%	1.4%

*Less than 0.5%

Chart 4

FREQUENCY OF AVERAGE COMPENSATION INCREASES



of the last three January reporting periods. Two reasons exist for the increase. One is the tight labor markets in parts of the country and the continuing demand for skilled labor (see, Employment). The other is the impact of the new Federal minimum wage law which goes into effect the first of April.

Sales

Small business sales continued to hold up quite well despite the slowing pace of activity. January's Index of Small Business Sales even rose for the second consecutive quarter offsetting losses registered earlier in the year (Chart 5). Thirty-two (32) percent reported higher sales in the fourth quarter than in the third compared to 28 percent who reported them lower (Table 11).

Chart 5

INDICES OF SMALL BUSINESS
SALES AND EARNINGS

Small business owners expected sales to be steady over the next three months. Forty-three (43) percent forecast higher sales for their business in the coming quarter and just 25 percent forecast them lower (Table 12). With and without seasonal adjustment, the change from October was marginal. Since sales have tracked sales expectations reasonably well over the last few years - though about 20 percentage points lower - the level of actual sales recorded in the first quarter will be similar to the level recorded in the fourth.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Much Higher	4	2	4	3	3	2	3
Higher	27	25	29	26	36	31	29
About the Same	39	46	40	40	40	43	40
Lower	23	23	22	25	17	20	24
Much Lower	5	3	3	5	3	3	4
No Answer	2	1	2	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Go Up A Lot	7	7	8	11	6	7	7
Go Up A Little	37	36	36	45	38	36	36
Stay the Same	28	33	29	22	32	27	28
Go Down a Little	18	16	18	14	16	21	20
Go Down a Lot	5	4	4	3	3	5	5
Don't Know	3	3	3	3	3	3	4
No Answer	2	1	2	2	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Earnings

The Index of Small Business Earnings tumbled sharply in January and came to rest at its lowest point in the expansion (Chart 5). The Index has now fallen in five of the last six quarters. Just 20 percent reported higher earnings in the fourth quarter than in the third; 37 percent reported them lower (Table 13).

Sales volume was the reason most often cited for lower earnings. The number pointing to lower sales (44 percent) was typical of the levels recorded over the last few years (Table 14). However, factor cost increases continued to be another important reason. Chart 6 illustrates the reasons for reduced earnings with seasonality eliminated and factor costs separated into their components. The important point on Chart 6 is that increased labor and increased material costs are about equally important. Reduced earnings attributable to financing costs occurs in only about 3

percent of the cases. These data agree with data presented earlier on wage increases (see, Compensation), interest rates (see, Credit Conditions), and more indirectly to general price levels (see, Prices).

Except for those citing seasonality, the distribution of reasons for higher earnings does not to change very much. The pattern held

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Much Higher	1	1	2	1	1	1	1
Higher	21	21	21	18	25	22	19
Same	41	45	43	41	41	44	43
Lower	28	27	27	32	28	28	32
Much Lower	6	4	4	5	4	4	5
No Answer	3	2	3	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Sales Volume	57	50	60	59	56	57	58
Higher Prices	9	6	9	11	8	11	9
Factor Costs*	7	4	6	7	4	7	5
Seasonality	17	19	18	12	27	18	20
Other; NA	10	21	8	11	5	7	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Sales Volume	45	38	40	39	42	45	44
Factor Costs*	18	20	21	25	27	27	22
Seasonality	21	21	24	20	15	15	23
Other; NA	16	21	15	16	16	13	11
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

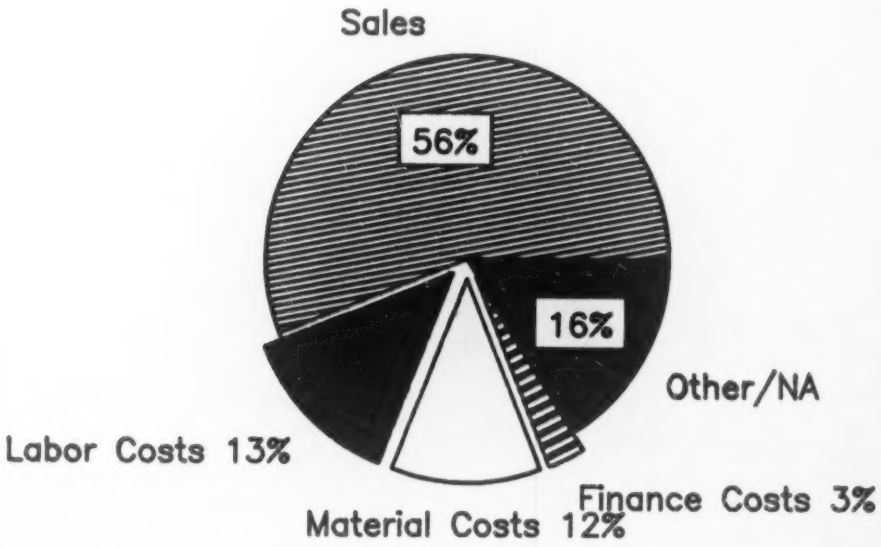
in January. Sales volume (58 percent) was the reason most often cited for higher earnings.

Employment

Operating small businesses provided in the weakest employment showing since January, 1983. Twelve (12) percent reported increasing net employment, 1/4 of it seasonal; 18 percent reported net employment losses, 1/2 of it seasonal (Table 15). The net number losing employees was magnified by the size of average increases and average reductions. The former (3.3 employees per firm adding) was with the exception of October the lowest since 1984 and the latter (4.6 employees per firm reducing) was with one exception the highest since 1982.

Chart 6

DISTRIBUTION OF NON-SEASONAL REASONS
FOR LOWER EARNINGS



Despite fourth quarter's employment decline, the number of firms reporting a current job vacancy rose one percentage point on a seasonally adjusted basis. The raw number fell two percentage points from 23 percent in October to 21 percent in January (Table 16). Either number is historically high indicating that the small business demand for labor, particularly skilled labor, is far from satiated. (Also see, Single Most Important Problem.) As a result, the unemployment rate, inversely related to small business job openings, should remain stable.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1987 JAN	1988 JAN	1990 JAN	APR	1989 JUL	OCT	1990 JAN
Increased	12	13	14	14	21	17	12
Seasonal	3	4	5	5	11	6	3
Non-seasonal	9	9	9	9	10	11	9
Decreased	15	17	13	13	11	5	18
Seasonal	7	6	6	4	2	5	9
Non-seasonal	8	11	7	9	9	10	9
No Change	68	70	70	72	68	68	70
No Answer	5	*	3	1	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	4.4	4.0	3.9	3.9	4.2	3.3	3.3
Employees decreased per firm decreasing	4.5	3.2	3.7	4.2	3.1	3.0	4.6
Average net change per all firms	-.16	-.01	+.05	-.43	+.53	+.12	-.39

*Less than 0.5%

Employment plans for the first quarter looked more like current job openings and less like fourth quarter employment patterns. Nineteen (19) percent planned net additions to the labor force in the first quarter compared to eight percent planning net declines (Table 17). January's seasonally adjusted number was marginally lower than October's. However, both were among the highest in the expansion.

October's forecast is puzzling. The forecast was highly favorable and it missed badly. The immediate question is whether October's effort was simply a poor forecast or whether planned

hiring was delayed and January plans reflect unrealized activity. The answer has implications for January's forecast. The only datum which offers direct evidence on the question is current job openings. It suggests that jobs remain plentiful which in turn suggests January plans are more likely to be realized than not. But, the same rationale would have applied the prior quarter and it would have been wrong.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Yes	15	23	24	23	24	23	21
Skilled Labor	11	14	15	15	17	15	15
Unskilled Labor	3	2	5	4	3	3	3
Both	2	7	4	4	4	5	3
No	83	75	75	76	75	77	79
No Answer	2	2	1	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Increase	16	19	20	23	15	16	19
Keep the Same	73	74	69	69	74	73	72
Decrease	7	5	7	5	10	10	8
No Answer	4	2	4	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

January small business inventory data presented a confusing, even contradictory, array of information on performance, satisfaction and plans. The data lacked consistency, demonstrating that small business owners held no consensus over the economy's direction nor the prospects for their individual firms. However, past discrepancies in the inventory data have usually been resolved within one quarter.

Twenty-one (21) percent reported net inventory declines over the last quarter compared to 16 percent reporting net inventory additions (Table 18). January's figures appeared somewhat more favorable than those recorded in either January, 1988 or 1989. More owners in all major inventory holding industries reported declines more often than increases with construction, retail and manufacturing reporting net declines most frequently. Retail in particular was able to reduce net inventories better last quarter than in any of the three most recent fourth quarters.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Increase	17	16	17	20	20	18	16
Same	37	44	42	43	44	46	43
Decrease	23	18	19	17	15	16	21
Not Applicable	20	21	19	19	20	19	20
No Answer	3	1	3	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

Despite the relative reduction in net inventories over the last quarter, small business owners were less satisfied with current inventory balances in January than they were at any time in the last two years. Nine percent believed their inventories "Too Low" while 13 percent termed them "Too Large" (Table 19). The resulting net -4 percentage points was the poorest performance with a single exception in over three years.

Dissatisfaction with current inventories as in January suggest that small business owners would curb plans to add inventories in the coming quarter. That did not occur. Rather, plans to increase net inventories rose. Twenty-two (22) percent reported plans to increase net inventory compared to 13 percent who planned to reduce them (Table 20). Seasonal adjustment shrunk plans from +9 to +6 percentage points. Nevertheless, January's number represented the second consecutive quarterly increase and rested on a par with those recorded throughout 1988.

Capital Expenditures

Capital expenditures proved a major positive factor in this quarter's report as it has in reports over the last two years. Both reported capital expenditures and plans to make them were strong in January. However, realizing capital expenditure plans will be increasing difficult as lower earnings, flat sales and no relief on interest rates conspire to reduce the resources available to finance them.

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Too Large	12	17	12	11	12	12	13
About Right	54	47	55	56	55	54	55
Too Low	10	12	10	10	10	10	9
Not Applicable	21	23	21	21	19	21	21
No Answer	3	1	2	2	4	3	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Add	22	23	22	21	16	16	22
No Change	41	42	43	44	46	44	43
Decrease	13	11	12	12	15	17	13
Not Applicable	21	22	20	20	15	17	17
No Answer	3	2	3	3	8	6	5
Total	100%	100%	100%	100%	100%	100%	100%

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21), up one percentage point from October and equal to the expansion high. The largest proportion was made for new equipment and vehicles (48 percent) and a non-mutually exclusive 17 percent were made for building improvements. Fifty-nine (59) percent of all capital expenditures were $10,000 or more compared to 57 percent recorded in October (Table 22). In fact, 43 percent of all small business owner respondents reported capital expenditures of $5,000 or more, a figure equal to the expansion high.

The number of small business owners planning one or more capital outlays in the next three to six months moved sharply higher in January. Thirty-five (35) percent held plans, a jump of four percentage points from the previous quarter (Table 23). Seasonally adjusted, January plans were among the strongest in the series history (Chart 7) and extended the pattern which has existed throughout most of the decade.

The important question is how small business owners intend to finance their capital expansion plans. Healthy earnings served as

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987 JAN	1988 JAN	1990 JAN	APR	1989 JUL	OCT	1990 JAN
All Types+	54%	55%	57%	57%	54%	56%	57%
Equipment/ Vehicles	43	45	49	46	45	46	48
Add Buildings	7	8	7	8	7	6	5
Improved Buildings	15	15	14	16	15	16	17
Land	4	6	4	4	4	4	4

+Percent of firms making one or more capital expenditures

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

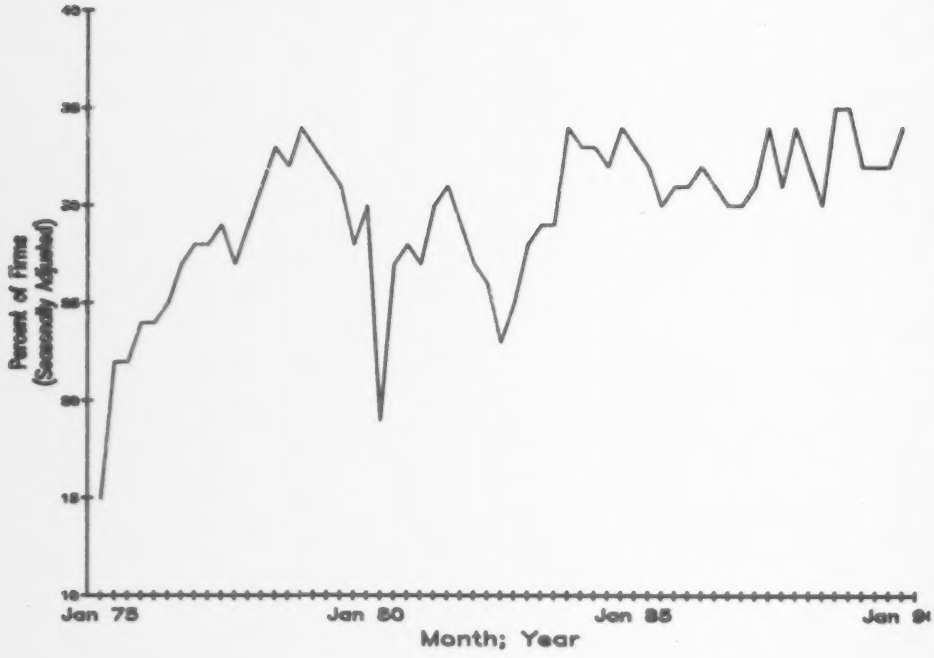
AMOUNT OF EXPENDITURES (000's)	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Under $1	8	6	6	6	4	7	5
$1 - 4	24	19	22	19	18	20	21
$5 - 9	14	11	13	16	13	16	15
$10 - 19	19	21	22	17	24	21	19
$20 - 49	15	19	18	18	20	16	18
$50 - 99	10	10	9	10	9	8	10
$100 - 499	9	9	8	11	11	10	10
$500 - 999	1	1	1	2	*	2	1
$1,000 or More	1	4	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

the pillar of those made in the mid to late 1980's. But earnings as measured by the Index of Small Business Earnings (see, Earnings) began to decline in 1988 and last quarter fell to their lowest point in the expansion. While sales have shown more resillience than earnings, they have been steady with no change expected (see, Sales). Increased sales volume, therefore, is not a promising source of new capital. The third possibility is interest rates. However, they remain relatively high with little chance of falling in the immediate future (see, Credit Conditions).

Chart 7

FREQUENCY OF PLANNED CAPITAL EXPENDITURES



Single Most Important Problem

"Taxes" was most frequently cited as the single most important problem of small business (Table 24). Twenty-two (22) percent noted "Taxes," the same percentage as in October. Not since October, 1984, has any other problem been cited with greater frequency.

Eighteen (18) percent cited "Government Regulation(s)/Red Tape" as their single most important problem, a one percentage point climb from the prior quarter. The number tied a survey record high for the problem established in January, 1988. No particular legislation or incident appears responsible for the recent relative importance of regulation and red tape. Since 1985 the number citing the problem has been relatively high. The trend has been even more pronounced in the last two years. One explanation for the rise is that as immediate, pressing problems, e.g., interest rates, poor sales, decline in relative importance, nagging problems, e.g., regulation/red tape, increase.

Much of the same rationale applies to the progressive increase in the number of small business owners citing the "Quality of Labor"

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Yes	31	35	36	33	31	31	35
No	53	50	48	52	55	54	50
Don't Know	11	11	13	11	11	12	12
No Answer	5	4	3	4	3	3	3
Total	100%	100%	100%	100%	100%	100%	100%

as their single most important problem. Ten (10) percent pointed to the problem in January, one percentage point lower than in October. However, labor quality as a problem too has been cited with increasing frequency over the last eight years. The difference between regulation and labor quality as problems is that the evidence indicates that labor quality concerns are much more than a reaction to declines in concern about immediate problems. They clearly reflect the increasing difficulty small employers find recruiting qualified help.

Neither the number of small business owners pointing to "Poor Sales" nor to "Inflation" suggest a major change in economic direction is in progress. Just 11 percent cited "Poor Sales" as their single most important problem, the same percentage as in October and within one percentage point of the number citing poor sales over the last two years. For almost three years prior to October, 1987, the proportion mentioning poor sales was even higher.

The percent citing "Inflation," has been steady over the last four quarters and with the exception of 1986 and 1987 when the figure was lower, has remained much the same since 1984. Thus, neither appears to be having a major impact on small business owners - at least not yet.

Index of Small Business Optimism

The seasonally adjusted Index of Small Business Optimism fell 1.4 percent between October and January. January's Index stood at 100.7 (100=1978) (Table 25), similar to to the levels registered since last April. The quarter's decline does not suggest a trend. In fact, since mid-1985 the Index has bobbed up and down within a relatively narrow range (Chart 8). The highest Index score during the period has been 102.9 and the lowest 99.5. The comparable series scores have been 108.7 and 81.1 respectively. Thus, January's Index indicates that no major changes in national economic activity should be expected in the coming three months.

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	%	Prior Low Date	%	1989 APR Rank	%	JUL Rank	%	OCT Rank	%	1990 JAN Rank	%
Taxes	7/88+	25	10/74	8	1	22	1	21	1	22	1	22
Inflation	10/74	41	10/87+	2	8	4	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	1	4	10	3	10	3	11	3	11
Interest Rates & Financing	4/82+	17	7/77	4	3	11	3	10	6	7	6	7
Cost of Labor	7/77	9	7/82	2	7	7	7	7	7	6	6	7
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	16	2	17	2	17	2	18
Competition from Large Business	10/76	13	4/80+	4	5	9	3	10	3	11	4	10
Quality of Labor	10/88+	12	1/83+	3	5	9	3	10	3	11	4	10
Shortage of Fuel Material, Goods	1/74	23	10/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	11	-	11	-	11
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
\+ Most recent

Table 25

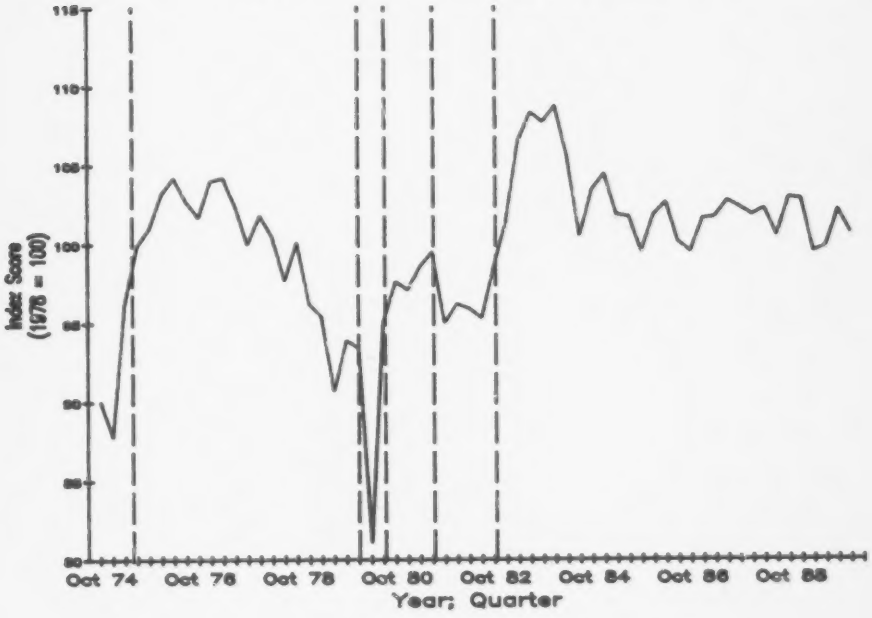
INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 JAN	1987 JAN	1988 JAN	1989 APR	JUL	OCT	1990 JAN
General Expectations[1]	112.0	108.5	110.5	110.3	107.8	108.3	109.3
Current Status[2]	101.3	120.3	104.3	101.3	106.0	104.4	100.0
Spending Plans[3]	116.3	110.4	119.7	120.0	112.3	112.0	118.3
Index*	101.1	110.4	111.4	110.5	108.6	108.1	100.7
Index (1978=100)+	101.6	101.8	102.8	99.5	99.8	102.1	100.7

*Index numbers
+Seasonally Adjusted
[1]Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2]Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3]Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 8

INDEX OF SMALL BUSINESS OPTIMISM



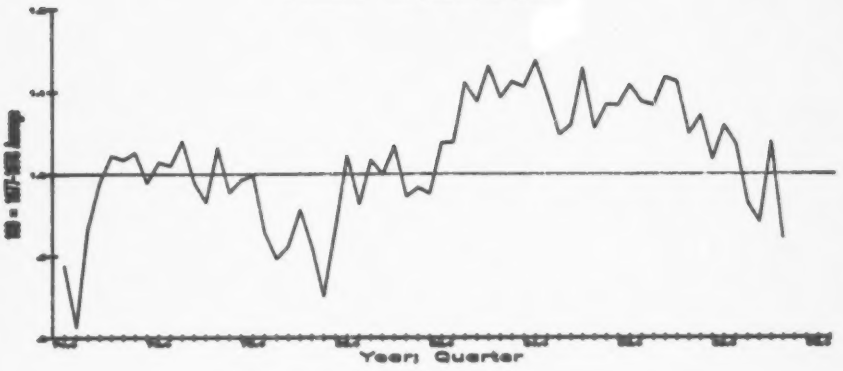
Regional Conditions

All regional Indices of Small Business Optimism were lower in January, 1990, than they were one year ago. The exceptions were in the West South Central region which was 3 percent higher in its continued come-back than last year and the Mountain states which edged higher. The Index of the West North Central states - the Plains - was virtually unchanged, though at a comparatively low level.

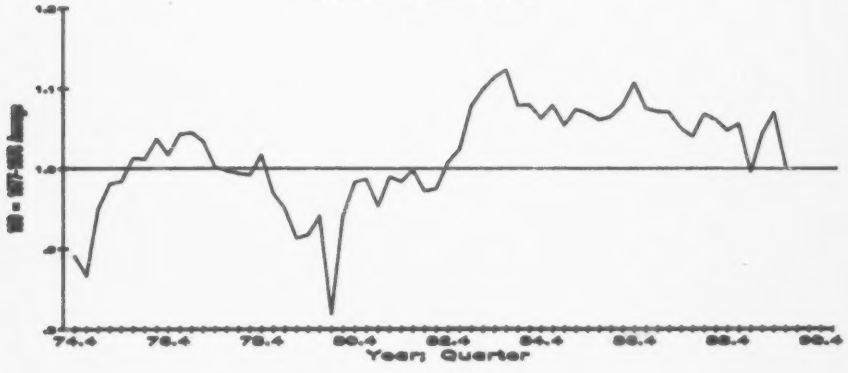
The Pacific region continued to produce the nation's highest Index. In January, the region led the country for the seventh consecutive quarter. It was followed by the West South Central, Mountain, South Atlantic and the Great Lakes regions.

Less than two years ago, New England produced the nation's most favorable Index. In January, the region produced the lowest. The region's year over year tumble was 11 percent. The second largest fall occurred in the Mid-Atlantic region (5 percent) which has been among the most prosperous. Weather probably was a factor in these two northern regions. However, the trend, particularly in New England, has been down and weather may only have accentuated it.

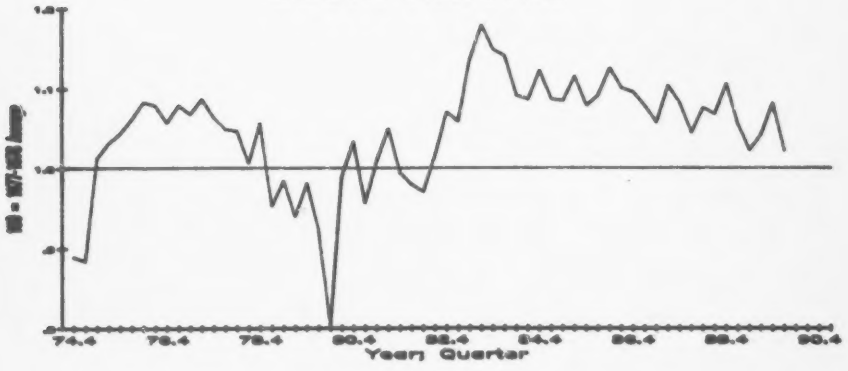
NEW ENGLAND



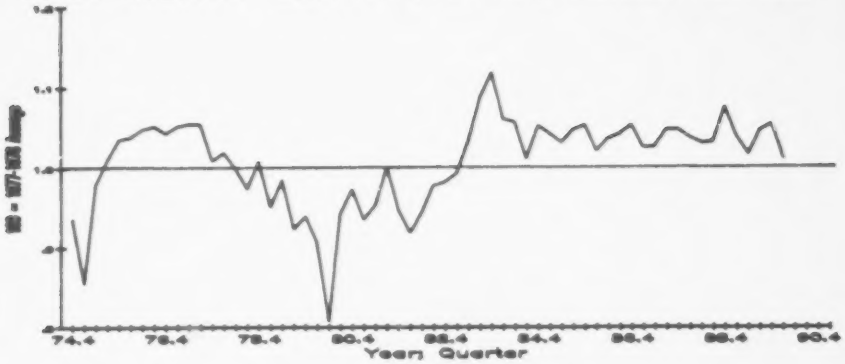
MID-ATLANTIC



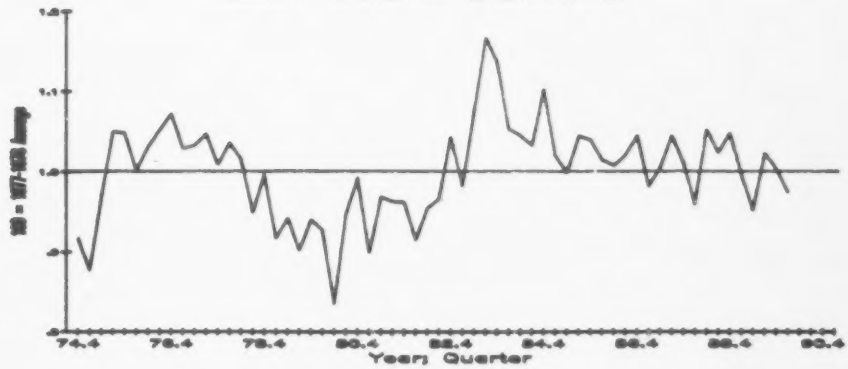
SOUTH ATLANTIC



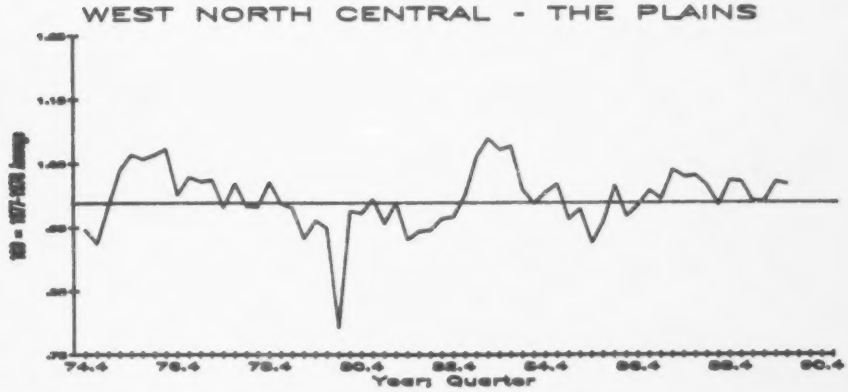
EAST NORTH CENTRAL - THE GREAT LAKES



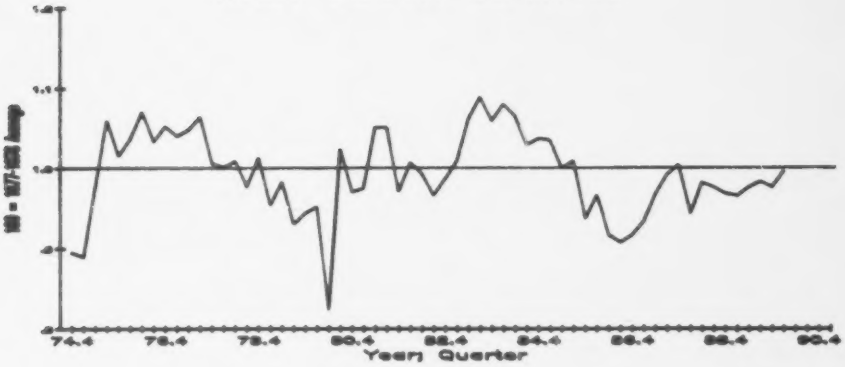
EAST SOUTH CENTRAL



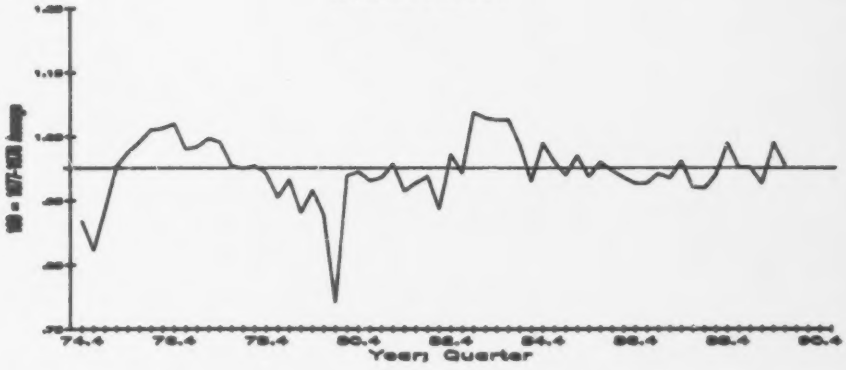
WEST NORTH CENTRAL - THE PLAINS



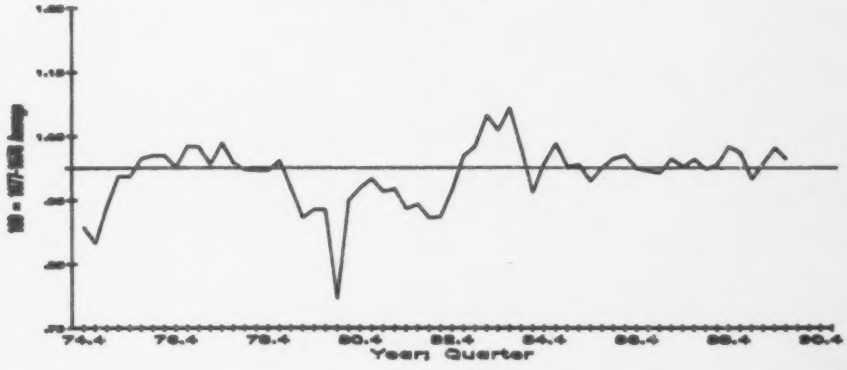
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

SALES OF FIRM	INDUSTRY									
	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1990
Less than $50,000	4	5	6	*	6	8	10	18	9	7
$50,000-99,999	11	5	8	4	8	7	3	14	13	9
$100,000-199,000	13	9	11	6	15	20	15	21	25	15
$200,000-349,000	17	12	15	10	18	19	10	15	19	16
$350,000-799,999	19	21	20	14	25	21	23	16	21	21
$800,000-1,499,999	15	16	19	14	12	12	13	6	6	12
$1,500,000-2,999,999	12	18	9	14	7	8	10	4	4	9
$3,000,000 or more	9	14	9	38	8	4	12	2	1	10
Not Ascertained	*	*	3	*	1	1	4	4	2	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	316	244	65	135	590	112	169	280	140	2057
Percent of Firms	15	12	3	7	29	5	8	14	7	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

EMPLOYEES	INDUSTRY									
	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1990
1	7	2	6	4	7	12	11	11	6	
2	9	5	2	4	10	13	17	17	12	
3 - 5	28	16	25	22	29	39	30	30	32	
6 - 9	20	19	12	19	21	13	16	17	21	
10 - 14	12	17	14	12	12	10	10	10	10	
15 - 19	7	7	15	10	7	5	2	5	4	
20 - 39	9	19	17	10	9	2	10	5	10	
40 or more	8	15	8	19	5	6	3	4	4	
No Answer	*	*	1	*	*	*	1	1	1	
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity,] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, **etc.**)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, **etc.**)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, **etc.**)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., **etc.**) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, **etc.**)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, **etc.**
   [7] Financial, insurance, real estate, bank, savings & loan, **etc.**
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, **etc.**
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, **etc.**
   [10] Other (please describe)_____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

   [1] Taxes [4] Interest rates & financing [8] Quality of labor
   [2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
   [3] Poor sales [6] Government regulation(s) & red tape [0] Other_____ (please explain)
   [7] Competition from large businesses

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer – ***most important reason***)

   [1] Economic conditions [3] Financing & interest rates [5] Other_____ (please explain) 5
   [2] Sales prospects [4] Cost of expansion

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better [3] About the same [5] Much worse 6
   [2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

   [1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
   [2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your average selling prices now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have full and part-time ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any job openings that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If increase or decrease, by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid *three months ago*?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were *three months ago*?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the *next three months*?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33–35

19. During *the last 6 months* has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles:	[1] Yes	36
Additional Buildings:	[1] Yes	37
Improved Buildings:	[1] Yes	38
Additional Land:	[1] Yes	39

19a. *If yes*, what was *the total cost* of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000–19,999 [7] $100,000–499,999 40
[2] $1,000–4,999 [5] $20,000–49,999 [8] $500,000–999,999
[3] $5,000–9,999 [6] $50,000–99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change *average* employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the *next three months*?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% [7] Don't know 43
[2] 3–4% [4] 7–8% [6] Over 10%

22. Over the *past three months*, did you change *average* employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% 45
[2] 3–4% [4] 7–8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)